The growth of electronic trading in the foreign exchange market is one of the most significant trends of recent years. Screen-based systems have rapidly replaced the phone as a conduit for conducting trades, enhancing the efficiency of the trading process as well as reducing trade errors because trade information can be entered just once—rather than being re-keyed several times during the trade and settlement process.

Electronic front-end trading systems are also changing the way in which counterparties validate or confirm trades with one another. Industry best practices recommend, for example, that counterparties confirm each trade with one another via confirmation messages (that is, by SWIFT MT300, fax, paper, or phone). Some counterparties, however, have chosen on a bilateral basis to eliminate confirmation messages with one another and to use electronic affirmation facilities offered by electronic trading systems instead. Such facilities provide for an independent (that is, nondealer) validation of trade details. Some trade systems alternatively send trade summaries directly to each counterparty’s back office for verification. Market participants can affirm that the trade details reflected in the electronic trading system correspond to their own internal books and records and that proper controls are followed. However, it is important to recognize that such validation exercises do not necessarily confirm that trade details have been entered correctly into the books and records of each counterparty.

Supplementary Guidance on Electronic Validations and Confirmation Messaging
The Committee continues to recommend back-office confirmation messaging as a means of controlling operational and settlement risks. Market participants who choose to replace confirmation messaging with trade validation from electronic front-end trading systems, however, should carefully consider both the benefits and risks of doing so.

**BENEFITS**

- Automates the confirmation phase, minimizing the need for dual entry of trade data and enhancing straight-through processing,
- Eliminates the cost of sending confirmation messages as well as the operational expense of processing confirmations manually,
- Offers a consistent system for both small and large market participants to verify trade information in a timely and efficient manner, and
- If two counterparties use electronic validation in common, trade information can be confirmed against an independent and unbiased third-party record.

**RISKS**

- Affirmation facilities connected with electronic front-end systems may not allow counterparties to validate whether the trade has been accounted for properly in the books and records of each firm, even though they allow counterparties to confirm that trade details are accurate,
- Electronic front-end systems may not capture sufficient data to provide a robust audit trail in the event of a dispute, even though they provide sufficient data for matching the trading terms,
- Without confirmations, electronic databases may not accurately reflect trade amendments or adjustments, increasing the chance of settlement errors,
- Eliminating confirmations may also limit the independence of the trade validation process by the back office and may increase the risk of unauthorized (that is, rogue) trading,
- In the absence of standard settlement instructions (SSIs), eliminating confirmation may compromise the ability of each counterparty to ensure that settlement instructions are accurate, and
- Electronic trading systems that do incorporate SSIs may not be updated correctly without per-trade confirmation; new accounts open and settlement instructions change, but this may not be communicated to all counterparties.

**SUMMARY**

Market participants who eliminate confirmation messaging are urged to have sufficient measures in place to mitigate the risks noted above. The Committee recognizes that future developments in electronic trading systems may further safeguard trade validation. Careful analysis is necessary, however, to be certain that risks are sufficiently recognized and managed. The Committee will continue to monitor the evolving electronic marketplace and provide guidance as necessary.